



SOCIETY OF ACTUARIES

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# Actuarial services for government

by Christopher D. Daykin

Governments need actuarial advice in formulating pension policy, in financially managing national social security schemes and public sector pension plans, and in supervising life, health and property-casualty insurance. They also need actuarial advice in considering the impact of future population changes, in assessing compensation terms for loss of earnings or pension rights, and in numerous other areas.

Some governments choose to take actuarial advice from private sector consultants for particular problems. This may work well for certain situations, but on different occasions may lack coherence and continuity. For example, a consultant may not be familiar with how governments and government departments operate and conflicts of interest also may occur between this work and work done by the consultant for other clients.

Another alternative in selecting actuarial advice is for each government department to recruit its own actuaries according to its needs. This may work up to a point, but in a tight actuarial recruiting market securing the right level of staffing may not be easy. Providing an adequate career structure for actuaries in the public sector also is sometimes difficult.

In the United Kingdom we devised our own system for securing actuarial assistance by creating a separate actuarial consultancy firm within government, known as the Government Actuary's Department (GAD).

The process leading to the formation of GAD began in 1912, when Alfred Watson, a consulting actuary and partner in the firm R. Watson and Sons, was appointed Chief Actuary to the National Health Insurance Joint Committee. Watson was the head of a small subdepartment that advised the committee on actuarial and financial matters in connection with the National Insurance Act 1911.

The role of Chief Actuary grew during World War I, and in 1917 the Treasury conferred the title of Government Actuary on Watson, who later became Sir Alfred Watson. He remained Government Actuary until 1936, heading up the Government Actuary's Department from June 1919, when GAD was separately established

to provide a centralized actuarial work required for public service.

GAD currently employs 27 qualified actuaries, 12 students and a support staff of 66. The department provides consultancy services to any government minister, government department or other public sector body that requires actuarial advice. Fees are charged on normal consultancy terms based on hours spent on the work, with a loading to cover office overheads. Government departments and public sector clients are not obliged to use GAD, but government departments in particular should only seek actuarial advice elsewhere if it is cost effective to do so.

The Government Actuary has certain statutory functions regarding U.K. social security. The Social Security Act 1986 requires a report by the Government Actuary whenever the Secretary of State lays an order before Parliament concerning the annual uprating of benefits. A report is similarly required of the annual review of contribution rates and the earnings bands to which they are applied, but this report is now generally combined with the benefits uprating report. Every five years the Government Actuary must perform a review of the operation of the Social Security Acts, examining the long-term and focusing on the future benefits costs and the rates of contribution likely to be required over the years.

Another major activity of the Government Actuary's Department is the supervision of both life and nonlife insurance companies. Formal responsibility for supervising the insurance industry rests with the Department of Trade and Industry, but GAD is the industry's official actuarial adviser. In practice much of the daily work of supervising life insurance companies is delegated to the Insurance Directorate at GAD. GAD also provides advice on financial questions related to the supervision of nonlife insurance, including medical expenses insurance and reinsurance.

GAD also is involved in the formulation of pension policy, by advising the Department of Social Security, the Treasury and the Inland Revenue on the different policy aspects of private pension plans,

including taxation, funding standards, protection of members, or opting out of a part of the State social security arrangements and providing equivalent benefits through private plans. GAD also advises many public sector pension schemes, including those for civil servants, armed forces, police, fire, teachers and national health service employees, and many funded schemes in the wider public sector.

GAD also produces the official national population projections of the United Kingdom and its constituent countries. This is done in consultation with the Office of Population Censuses and Surveys (for England and Wales) and the Registrars General for Scotland and Northern Ireland, which have responsibility for maintaining population statistics for their respective countries. However, GAD provides an independent overview, without territorial bias, and the official projections (including projections on variant assumptions) produced by the Government Actuary are required to be used for all public expenditure planning purposes.

The wide range of actuarial activity, the close involvement in the political process and the opportunity to influence national policy development in many areas makes GAD an exciting and challenging place for actuaries to work. GAD offers a distinctive ethos and a strong emphasis on professionalism and serving the public interest.

Competing with salary levels in the private sector has been a problem for GAD, but more flexible, performance-related pay arrangements were introduced in 1989 and these now make it easier to recruit and retain staff.

Many advantages exist for a government that has its own in-house actuarial consultancy firm. It also benefits the actuarial profession because it improves the chances that actuarial aspects of legislation will be properly considered. An in-house firm also leads to an awareness within government of possible legislative solutions which rely on the professionalism of actuaries.

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